

DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997 :

Docket No. R97-1

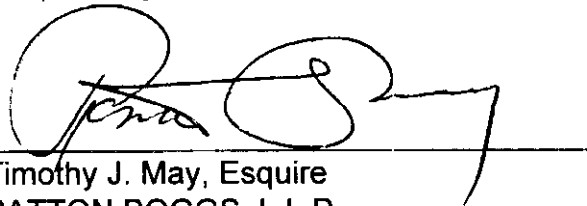
RESPONSES OF PARCEL SHIPPERS ASSOCIATION (PSA) WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

The Parcel Shippers Association (PSA) hereby provides PSA witness Jellison's  
responses to the following interrogatories of United States Postal Service:

USPS/PSA-T1-27-46.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,



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Dated: February 6, 1998

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-27.** Please refer to the second paragraph on page 21 of your testimony.

(a) Please confirm that you have examined the testimony of witness Crum. If you cannot confirm, please provide the basis for your statement in this paragraph.

(b) If your response to part (a) is affirmative, please confirm that Table 3 in Exhibit K of witness Crum's testimony shows unit cost differences between Standard Mail (A) parcels and flats of 23.41 cents in Mail Processing, 8.18 cents in City Carriers, 1.46 cents in Vehicle Service Drivers, 0.86 cents in Rural Carriers, and 6.37 cents in Transportation. If you cannot confirm, please explain fully?

(c) Please confirm that Table 3 in Exhibit K of witness Crum's testimony shows that the density of Standard Mail (A) parcels is 39 percent of the density of Standard Mail (A) flats and that cubic volume is a widely recognized cost driver (see, e.g., USPS-T-37, page 13, lines 17-23 and Tr. 5/2369 (lines 24-25), 2370 (line 1)). If you cannot confirm, please explain fully.

**RESPONSE.**

(a) Confirmed.

(b) Table 3 of Exhibit K of witness Crum's testimony does not show unit cost differences by shape for the denominated cost categories on a per piece basis. However, that Table does show the total attributable costs per piece and one can derive the cost difference between flats and parcels by offsetting one against the other. Table 3 shows total parcel attributable costs of 51.6 cents and for flats of 11.3 cents,

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

producing a cost difference of 40.3 cents. The cost differences enumerated in your question sum to a total of 40.28 cents; therefore, while I have not performed all the mathematical calculations, I do not disagree with the cost differences itemized.

(c) Table 3 of Exhibit K shows the pounds per cubic feet for flats and parcels to be, respectively, 20.7 and 8.1, the latter figure being 39% of the former. I can confirm that witness Crum has testified that cubic volume is a cost driver; your reference to my testimony does not deny that cube is a cost driver, but rather my testimony states that witness Crum's study failed to establish that it was cube or "shape" that caused the cost differences shown in parcels and flats in his study.; moreover, "cube" and "shape" are not synonyms for each other and do not necessarily have equal cost effects.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA/T1-28.**

(a) Please refer to page 24 of your testimony and confirm that First Class Mail can be entered single piece in any one of the 312,000 collection boxes whereas Bulk Standard Mail (A) is inducted by trained mail acceptance clerks at specified locations. If you cannot confirm, please explain fully.

(b) Do you believe it makes sense to have identical rate structures and rules for two mail classes with such differing acceptance criteria? Please explain.

(c) Are you proposing that these two mail classes have identical rate structures with regard to non-letter, non-flat pieces?

**RESPONSE.**

(a) I can confirm that single piece First Class Mail can be entered at collection boxes whereas Bulk Standard Mail (A) must be received by acceptance clerks at specified locations, although the degree of "training" they may have is a matter of conjecture.

(b) I did not propose that there would be an identical rate structure or acceptance rules for First Class parcels and Standard (A) parcels. Rather, I merely raised the question why the Postal Service does not propose a surcharge on First Class parcels to reflect the higher costs they are alleged to incur as compared to First Class flats.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

(c) No.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-29.** On page 24 of your testimony you state" This is certainly a significant enough segment of mail volume, 758.4 million pieces, to warrant discrete treatment."

(a) Please confirm that the figure in this passage is your estimate of pieces subject to the nonstandard surcharge.

(b) Is it your testimony that these pieces (whatever the volume) do not receive discrete rate treatment? Please explain.

**RESPONSE.**

(a) Please see page 24 of my revised testimony filed January 28, 1998.

(b) It was my testimony that non-standard flats and non-standard parcels do not receive discrete rate treatment despite their cost differences.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-30.** Please refer to page 27 of your testimony.

(a) Please confirm that you have broken out "regular for-profit" costs from the other three subclasses of Standard Mail (A), but you have made the Exhibit K, Table 7 adjustment based on all four subclasses of Standard Mail (A). If you cannot confirm, please explain fully the methodology you have used to derive your calculations.

(b) If you confirm part (a), please also confirm that properly making this adjustment by using only the "regular for-profit" volumes changes the figure from 7.3 cents to 1.2 cents and the adjusted parcel/flat cost difference for commercial regular from 25.8 cents to 31.9.

**RESPONSE.**

(a) Confirmed.

(b) Not confirmed; limiting witness Crum's adjustment to the "regular for-profit" volumes changes the figure from 7.3 cents to 1.44 cents, according to my calculations. Thus, the adjusted parcel/flat cost difference for commercial regular would be increased from the 25.8 cents in my testimony to 31.7 cents. This would be the adjusted cost difference not taking into account the cost reductions for parcels proposed by RIAA, et al witness Andrew (RIAA, et al-T-1) due to his adjustments in volume variability and transportation costs based on densities. PSA supports those proposed adjustments, and, with their inclusion, the parcel/flat cost difference would remain approximately that which I calculated. An errata to Mr. Jellison's testimony will be filed to incorporate the correction in Mr. Crum's adjustment.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-31.** Please supply all studies you have completed showing that weight itself has any significant impact on Standard Mail (A) parcel costs.

**RESPONSE.** I have performed no independent studies on the affect of weight on parcel costs. Given the fact that the Postal Service proposes separate and higher rates all the way from 1 to 70 pounds for parcels in the Standard (B) parcel schedule, one must assume that the Postal Service has its own data and studies which do demonstrate that weight has an impact on cost. Moreover, the Postal Service's own rate design for Standard (A) imposes higher rates on weightier matter within the subclass, and Postal Service attributable costs show that such matter does cost more than lighter weight matter.



**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-32.** Please refer to page 27 of your testimony. Confirm that you have adjusted costs based on the varying presort and dropship characteristics of parcels versus flats, and then you compare these numbers to revenues that you have not adjusted based on the varying dropship characteristics of parcels versus flats. If you cannot confirm, please explain fully. If you can confirm, please provide the rationale for this comparison of unadjusted revenues to adjusted costs.

**RESPONSE.** I can confirm that I have adopted the cost adjustment used by the Postal Service to adjust for the varying piece sort and dropship characteristics of parcels versus flats. Please see my response to USPS/PSA-T1-30(b). The revenues per piece for flats and parcels that I have used in my testimony are the actual revenues the Postal Service data shows were received for flats and parcels. The Postal Service adjustment for cost is to reflect the actual fact that flats actually bypassed certain handling functions more so on average than did parcels, and therefore to reflect the true cost differences between the two the adjustment was necessary. If the question means to imply that the parcel revenues derived should be reduced to reflect the revenues that would actually have been received had parcels bypassed postal handling functions to the same degree as did flats, there is no testimony as to why such an adjustment should be made, nor is there any data available from which such an adjustment could be made of which I am aware. Also, please see the testimony of RIAA witness Andrew (RIAA, et al.-T-1) at page 7.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-33.** In the last sentence on page 27 of your testimony, you compare percentages of pieces that are being, and are not being, singled out for surcharge in Standard Mail (A) and in First-Class Mail.

(a) Please derive the percentage of Standard Mail (A) pieces which you believe would be surcharged by virtue of the residual shape surcharge.

(b) Please derive the percentage of First-Class Mail parcels (as a percent of total FCM) which are NOT being surcharged as referred to in the last sentence of your testimony on page 24.

**RESPONSE.**

(a) and (b) Please see revised page 24 of my testimony, filed January 28, 1998. I do not believe I am required to perform mathematical calculations when the numbers to be calculated are not provided. If the Postal Service wishes to ask me to confirm their own calculations I would be pleased to do so.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-34.** Please see your testimony at page 3, lines 12-14.

(a) Confirm that the survey of your membership suggests that the Postal Service carries 97.6 percent of the respondents' pieces that would qualify as Standard Mail (A) parcels. If you cannot confirm, what is the correct estimate of the percent of pieces?

(b) Would you describe this portion of the parcel delivery market (pieces less than one pound) as being dominated by one carrier? If not, what percentage would one carrier have to carry in order for you to declare that part of the market dominated by one carrier?

(c) What is the average rate paid by your members for parcels sent via Standard Mail (A)?

(d) What is the current maximum rate possible for a Standard Mail (A) parcel?

(e) What is the average rate paid by the 2.4 percent of the parcels which are shipped via UPS?

(f) If these parcels are delivered to a residence, are they subject to the residential surcharge imposed by UPS?

**RESPONSE.**

(a) Confirmed.

(b) So far as the market is defined by those who responded to the survey, then surely USPS is the dominant carrier. We do not have sufficient data to know

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

whether USPS carries more or fewer under one pound parcels than, for example, United Parcel Service. Thus we do not know whether one carrier dominates the actual under one pound market. In our view "dominance" would reflect market shares of the same magnitude that United Parcel Service has of the one pound and over market.

(c) I do not know.

(d) The current maximum rate possible would be 84.3 cents per piece.

(e) We have no information on what rates are actually paid for the shipment of parcels of any weight by UPS. The published UPS tariff is a meaningless document.

(f) No.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSAT1-35.** Please see your testimony at page 20, line 16-20. Is it your testimony that the Commission's Recommended Decision and Vice Chairman LeBlanc's Dissenting Opinion included findings that were not supported by "evidence of record?"

**RESPONSE.** It is most assuredly my testimony that the Commission decision referenced was unsupported by "evidence of record." The findings were based upon a Library Reference Study that was never authenticated, vouched for, identified, nor placed into evidence. Parcel Shippers Association argued to the Commission that, because it was not part of the record, that study could not be relied upon as evidence to support Commission findings. In the absence of the study, there was absolutely no evidence in the record to support the Commission's findings. United Parcel Service witnesses who relied on that study were unable to state that they could in any way vouch for the accuracy or the methodology employed in the study; rather they could only testify that the study showed certain results, not that they agreed with those results because they had independently verified them. Thus, the testimony of the UPS witnesses on that point is mere hearsay and was entitled to no weight.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-36.** Please see your testimony at page 21, lines 6-10, where you state that you do not know where ECR parcel volume comes from or how many ECR parcels there are. Is it your contention that there is no ECR parcel (non-letter, non-flat) volume? If so, please explain.

**RESPONSE.** Since the Postal Service reports ECR volumes we have to assume that they do exist. My testimony, rather, was that despite the large number of members in our Association none could identify who might be the users of such a service.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-37.** Please see your testimony at page 23, lines 3-5, where you state there were "hundreds of millions of parcels that weighed more than 8 ounces." Were there also hundreds of millions of parcels that weighed less than 8 ounces. Please explain any negative response.

**RESPONSE.** Employing the same logic the answer would be yes.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-38.** Please see your testimony at page 23, lines 9-11.

(a) Do you think that it is possible that Standard Mail (a) parcels will have a higher implicit cost coverage than Standard Mail (A) flats with implementation of a residual shape surcharge? If so, please state what those coverages might be and show their derivation.

(b) Is it your understanding that Standard Mail (A) Regular letters have a higher implicit cost coverage than Standard Mail (A) Regular nonletters. If not, what is your understanding of the relative implicit costs coverages.

(c) Is it your contention that parcels should have a lower implicit coverage than either flats or letters? If so, why?

**RESPONSE.**

(a) Since the Postal Service itself has testified that it is unable to state what the cost coverages in the Test Year will be for either Standard (A) parcels or Standard (A) flats, it is certainly not possible for me to do so. However, if you ask my opinion, then my opinion is that it is possible that Standard Mail (A) parcels, bearing a residual shape surcharge, will have higher implicit cost coverage than Standard Mail (A) flats.

(b) If you mean to exclude Enhanced Carrier Route and Nonprofit from the category of Standard Mail (A) Regular, then I will respond in the affirmative. For the Base Year Regular Standard (A) letters, as defined, would have 186% cost coverage, and the non-letter category would have 109.4% cost coverage.



**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

(c) Yes. My reasons would be the same reasons that the Postal Service has for proposing lower implicit cost coverage for Standard (A) Regular flats than they do for Standard (A) Regular letters. In fact, the difference in cost coverage between letters and flats would be greater than the difference in the cost coverage between flats and letters, even without the proposed 10 cents surcharge. Specifically, our most important reason for advocating lower cost coverage is the rate shock that will ensue for many Standard (A) parcel mailers who, as the Postal Service's own testimony concedes, will be facing up to 50% price increases.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-39.** Please see your testimony at page 23, lines 11-14, where you state that the Postal Service agrees that it is possible that "the *average* cost difference between letters and nonletters was greater than the *average* cost difference between flats and residual shape pieces" (emphasis added).

(a) Please provide the citation for this passage and explain how it speaks to the *average* cost differences.

(b) Do you advocate a higher passthrough of the shape differential for letter and nonletters?

**RESPONSE.**

(a) The proper citation is the same one cited in my testimony, Tr. 6/2885, referencing USPS witness Moeller's responses to PSA interrogatories. The question asks how the citation speaks to the "average" cost differences. Unfortunately, the testimony contains a misprint on lines 12 and 13 of page 23; the word "average" appearing in those two lines should read "averaging." An errata will be filed.

(b) No; rather, my testimony raises the question why the Postal Service chose to address what could be a less serious problem of cross-subsidization by addressing the flat/parcel cost averaging.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-40.** Please refer to your testimony at page 27. Suppose that it was concluded that shape was the sole reason for the cost difference between flats and parcels, and that weight played no role. However, the difference in weight between the two shapes resulted in a revenue difference which exactly equaled the cost difference. Under those circumstances, would you oppose a shape-based surcharge?

**RESPONSE.** If I understand your hypothetical correctly, it postulates that the cost difference is covered by the higher revenues that are paid. Under those circumstances, I do not understand why there would be any need for a surcharge at all, since the more costly piece was contributing an equal amount of revenue, albeit for reasons unrelated to the causation of the cost.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-41.** Please see your testimony at page 30, final sentence. Is it your testimony that a surcharge is only warranted to assure cost coverage?

**RESPONSE.** It is my testimony that a type of mail which is neither recognized as a subclass or a rate category should not be visited with surcharges, particularly if it is covering its attributable costs. Practically every rate category and certainly every subclass consists of some types of mail which do not cover even their attributable costs. No such rigorous attempt has ever been made to ferret out every single one of such types of mail to be surcharged. It is contrary to the cost averaging of materials that are confined within a rate category or a subclass. It is particularly obnoxious to do so, however, when there is not conclusive evidence that the particular type of mail is not covering its attributable costs, and particularly where the surcharge could have the ruinous effect of imposing 40% to 50% rate increases on certain users.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-42.** Please see your testimony at page 28, lines 6-8. Please cite all current discounts or surcharges that are based on the "actual difference in the cost revenue relationships" between two groupings of mail.

**RESPONSE.** I have done no study and therefore am not aware of the extent to which current discounts or surcharges are based on the "actual difference in the cost revenue relationships." That was not the purport of the testimony that you cite. The testimony you cite was making the point that, whereas the Postal Service testimony made it sound as though they were being inordinately generous in only passing through one-quarter of the cost difference, in fact, they are proposing a surcharge greater than the revenue/cost gap between flats and parcels.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-43.** Please see your testimony at page 24, lines 4-6. Please show the derivation of the volume figures using the cited Exhibit USPS-43C.

**RESPONSE.** Please see the revised page 24 of my testimony filed January 28, 1998.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-44.** Please see your testimony at page 24, last full sentence.

(a) Is it your testimony that parcels in First-Class Mail are better candidates for a shape surcharge than are parcels in Standard Mail (A)?

(b) Regarding those FCM parcels that you deem more worthy for a surcharge; what would be the resulting percentage of total FCM pieces that would be surcharged?

**RESPONSE.**

(a) No.

(b) My testimony did not say that I deemed FCM parcels more worthy for a surcharge than Standard (A) parcels. Rather, my testimony raised the question why the Postal Service chose to surcharge one type of parcel and not the other. I do not know the resulting percentage of total First Class Mail pieces that would be surcharged.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-45.** Please see your testimony at page 23, last full sentence, where you refer to "a potentially more serious cross-subsidization issue between letters and nonletters." Do you acknowledge that there is a serious cross-subsidization issue between parcels and nonparcels, albeit less serious in your opinion.

**RESPONSE.** My testimony did not use the term "cross-subsidization" in the classic sense of a failure to cover attributable costs. Rather, it references the phenomenon that occurs when the disparate costs of two pieces of mail within the same rate category are averaged and rates are based upon that average. With that understanding I do acknowledge that there is an issue of cost averaging between parcels and nonparcels in Standard (A) nonletters. I do not acknowledge that it is serious; rather I suggested that the phenomenon might be a more serious issue with respect to the difference between letters and nonletters, and the averaging of those differences, than in the case of the differences between parcels and nonparcels. Again, I emphasize the fact that my testimony referred to the "possibility" of such an occurrence.



**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/PSA-T1-46.** Please see your testimony at page 28 where you state "we object to separating out parcels from flats in Regular Standard (A) when there is no existing sub-class or rate category distinction."

(a) Please confirm that there is "no existing sub-class or rate category" for DDU-entered parcels in parcel post.

(b) Do you support the discount for DDU-entered parcels in parcel post even though there is "no existing sub-class or rate category distinction"?

**RESPONSE.**

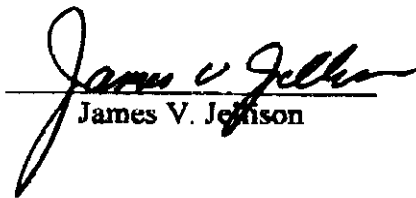
(a) While there is no existing rate category for DDU-entered parcels in parcel post, the Postal Service is proposing the creation of such a rate category in this case.

(b) Yes.

**DECLARATION**

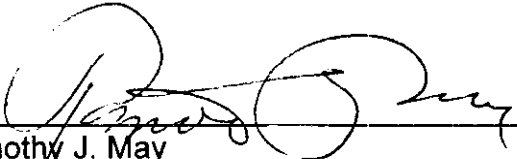
I, James V. Jellison, declare under penalty of law that the foregoing answers to interrogatories USPS/PSA-T1-27-46 are true and correct to the best of my knowledge, information, and belief.

Exccuted: 2/6/98

  
James V. Jellison

## CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
\_\_\_\_\_  
Timothy J. May

Dated: February 6, 1998